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Weekly Contributions

[REDACTED] ONE, CIA

5 April 1949

Of the week's developments, the improved prospects of a judicial settlement of the potentially serious dispute between Peru and Colombia over the Haya case (p. 2) is perhaps the most important.

CURRENT DEVELOPMENTS

GENERAL: It appears likely that the Peru-Colombia dispute regarding safe-conduct for APRA leader Haya de la Torre may be referred to the International Court of Justice for settlement (p. 2).

NORTHERN DIVISION: The Costa Rican Government, by promptly suppressing an attempted coup, has consolidated President Figueres' position and will discourage further attempted coups for some time to come (p. 2).

SOUTHERN DIVISION: Bolivia's Hertzog government recently has shown signs of strength, but still would be vulnerable to a well-planned revolutionary effort (p. 2). Argentina's government has moved toward a better understanding with the US, but basic differences will prevent an early accord (p. 3).

SPECIAL SUBJECTS

The Current Situation in Panama	5
The Current Economic Situation in Bolivia	7

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State Dept. review completed

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Weekly Contributions,
(CIA Working Paper)

5 April 1949

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1. GENERAL: Peru will accept Colombia's offer to refer the case of the AFRA leader, Haya de la Torre, to the International Court of Justice, the US Embassy in Lima has been informed. The Peruvian reply to the latest Colombian note, reportedly, will propose immediate conversations between the two governments relative to the drafting of official notification of the reference of the case to the court in regular session. While willingness to accept, in principle, adjudication by the World Court offers a means of settlement sufficiently solemn and unbiased to save the face of both governments, it does not remove the possibility of further serious tension as either government may resort to dilatory tactics in the drafting of the compromis.

2. COSTA RICA: Provisional President Figueres' position as his country's leader should be further consolidated by the ease and rapidity with which he has suppressed the most recent series of disturbances in San José.

25X6

Colonel Cardona, who led the revolt, has been considered for some time the only serious contender for supreme power in Costa Rica. His failure to achieve success, as well as his failure to obtain either popular support or the moral backing of Otilio Ulate (who is scheduled to succeed Figueres as president in May 1950), will probably discourage further attempted coups from within the governing group for some time to come.

25X6

3. BOLIVIA: The Hertzog government has strengthened its position by forceful action to control labor unrest in the mines and continued revolutionary plotting but it still remains vulnerable to a well-organized coup. Military and carabinero forces have been increased in the Catavi area, and a local state of siege has been continued because of the activities of agitators who have hidden in the mines to escape arrest [] Wkly for 29 Mar 49). Travel to the mining area has been restricted and local controls tightened, though the general state of siege, established when a revolutionary plot was discovered in February, has been terminated. Colonel Llosa (Peruvian junta member, charged by Bolivia with aiding the plot by cooperating with MNR exiles in Peru) has been quoted as predicting a new MNR coup in early April. Although unsettled conditions still make such attempts possible, the government's ability to withstand them has been substantially increased. The Hertzog regime, however, is still so weak that it would have difficulty in coping with a well-organized coup which involved a combination of violence in the mining areas with an MNR-backed coup in the cities.

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25X1

Weekly Contributions, [redacted]
(CIA Working Paper)

5 April 1949

4. ARGENTINA: Perón Seeks a US-Argentine Accord but is not yet Prepared to Make Necessary Concessions

The Peron government has recently moved toward a better understanding with the US, but prospects of an early accord are poor because of certain fundamental differences.

President Perón recently told US Charge Ray that Argentina must take steps to reach a necessary agreement with the US. Furthermore, the new Argentine economic administration has already undertaken a substantial reorientation of international trade policy -- many aspects of which are in line with US recommendations -- and can be expected to extend and make the reorientation more effective in order to stabilize the economy.

The most important present barrier to a US-Argentine rapprochement is the difference in views between the two governments concerning the treatment to be accorded to US business with and within Argentina. Much of the present US concern arises from the possible application of Article 40 of the new Constitution which authorizes government expropriation through purchase of any foreign-owned public utility company.

There is some reason to believe that Article 40 was deliberately written into the Constitution to gain bargaining advantage against the US and the UK -- with which Argentina is now negotiating a trade agreement -- and that therefore Perón may be expected to offer desired guarantees against its possible impact as long as he entertains hope of gaining advantages thereby such as dollars from increased participation in ECA. As a matter of fact, he has already told Ray that, while he could not guarantee any new company against application of Article 40, he believes he can give written assurance that the one public utility company affected would not be expropriated but would be purchased if taken over. He also gave assurances that companies other than public utilities would not be so classified as apprehended by US business interests -- particularly the meat packers.

While there appear to be reasonably good prospects for reaching a satisfactory compromise on application of Article 40, the provision of relief by the Argentine Government for US companies from conditions of high labor costs and lack of dollar exchange, which threaten to curtail or suspend operations, will probably be more difficult to obtain. The ability of the administration to provide such relief will be limited by the precarious condition of the national economy in which there has been no significant improvement -- the shortage of dollar exchange continues acute and labor's demand for wage increases remains intense. Furthermore, it is possible that progress toward an understanding with the US on these

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2 X1 Weekly Contributions,
(CIA Working Paper)

5 April 1949

issues may be retarded by Perón's preoccupation with domestic political considerations, his relatively poor comprehension of international economic realities, and his susceptibility to isolationist influences.

Therefore, while the opportunity for attainment of US policy objectives in relation to Argentina remains relatively good, since Perón has shown an increased awareness of the need for an Argentine-US rapprochement and has indicated a willingness to make some concessions toward that end, the above-mentioned fundamental points of difference will probably preclude reaching a general understanding in the immediate future.

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Weekly Contributions,
(CIA Working Paper)
Situation Memorandum 18-49

5 April 1949

The Current Situation in Panama

(Summary: Economic conditions in Panama are at present unfavorable, and the Diaz government is powerless to correct them. But the National Police remain loyal, and conspirators seem to prefer to wait for economic causes to topple the regime. Such an event, barring favorable shifts, could conceivably take place in the next six or eight months. The expected ratification of the US-Panama Air Agreement by the National Assembly will probably not be a sufficient achievement to save the Diaz government.)

Economic conditions in Panama are unfavorable. During the war years, approximately 40 percent of the republic's national income was derived from US sources and even in 1946, 35,000 Panamanian residents were on the US payroll and received \$31,970,000 wages. Especially during the last year, however, both US dollar payments to Panamanians and dollar expenditures of US citizens in the Republic have declined. As a consequence, unemployment has risen, shares on the Panamanian stock exchange have declined to new postwar lows, the banks have imposed severe restrictions on credit, the government budget is in imbalance. Meanwhile prices, especially of foodstuffs, remain high. A plan to decrease the cost of living is now under study by a presidential committee whereby popular type markets and restaurants would be installed in limited-income residential sections where consumers could obtain products and/or meals through the use of special coupons. Scarcity of employment on the Isthmus was recently emphasized when more than 400 applicants sought 27 positions available as vaccinators and inspectors at the Yellow Fever Control Office.

*An accurate description of condition.
The downfall of Diaz
is partially
an attempt to bring about economic condition.*

The government of President Diaz remains powerless to take any positive steps to alleviate these unfavorable economic conditions. Diaz did not receive a majority of the popular vote in the recent elections and his party does not command a majority in the National legislature. The opposition has thus made of the Assembly the platform from which to ventilate existing administration

25X6
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and has refused thus far to offer legislative sanction to any of the important measures which the administration has submitted to it. At the most recent session the Assembly did not approve the government's budget, and rejected the government bill for salary increases along with a proposal for special fiscal powers.

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Weekly Contributions, [redacted]
(CIA Working Paper)
Situation Memorandum 18-49

5 April 1949

Chief of Police Remón and the police which he commands have remained loyal. The administration's private [redacted] organization known as the pie de guerra — groups of ruffians who go about carrying lead pipes concealed in newspapers — has remained in being and continues to be a source of discouragement to opposition groups. As a consequence, the opposition has apparently decided for the time being that its best tactics are political rather than conspiratorial — namely, to block the administration's measures in the Assembly and wait until the economic crisis and the government's fiscal position becomes so embarrassed that it is unable to meet its own payrolls. This is a situation which no government in the history of Panama has been able to survive. Although it is impossible to predict when this will happen, it is estimated that unless economic conditions in the Republic take a definite turn for the better within the next six to eight months, the Diaz regime will probably be replaced by one more acceptable to the present opposition groups and the Assembly. Such a regime would possibly be less pro-US than the present government, but it is not believed that it would be so hostile to the US as to jeopardize US interests in the Republic.

2 X1

A special session of the Panamanian Assembly will be called very soon to consider the draft of the Bilateral US-Panamanian Air Transport Agreement [redacted] Wkly for 15 Feb 49) signed on 31 March. It is now believed that this agreement has a fairly good chance of being approved by the Assembly. Dr. Alfaro, Panama's leading international lawyer, has come out in favor of the agreement and even Harmodio Arias, President Diaz' most hated personal enemy and a bitter opponent of the administration, has not openly attacked the agreement. Its passage would probably have a salutary effect on US-Panamanian relations in that it would be a tangible demonstration that the two countries can, by diplomatic means, effect an agreement over a highly controversial subject which is acceptable to an Assembly, the majority of the members of which are opposed to the administration which negotiated it. At the same time, however, it is not felt that the passage of the agreement in itself will be a sufficiently impressive accomplishment to bolster up the position of the Diaz administration to a point where existing economic conditions no longer could impair its stability.

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Weekly Contributions, [redacted]
(CIA Working Paper)

Situation Memorandum 19-49

5 April 1949

The Current Economic Situation in Bolivia

(Summary: A substantial increase in tin prices during 1948 has brought relative prosperity to the part of the Bolivian population that depends on that commodity. The national economy, however, is basically unsound both because a majority of Bolivians live on a low-subsistence level and because long-term prospects for Bolivian tin are poor. The Bolivian Government has made a few not very successful attempts to develop agricultural production. Both Bolivia's tin production and its efforts to establish a balanced economy are of interest to the US.)

Bolivian mines responded to a 33 percent price increase for tin in 1948 by producing and exporting more than 70 million dollars worth of ore and concentrates. The total value of all Bolivian exports exceeded 100 million dollars, leaving a favorable merchandise balance of over 25 million dollars. These figures, minuscule compared with statistics of other countries, reflected an improvement in the economic status of the 15,000 miners and the total of a million or so urban residents who constitute the politically and economically effective portion of the population. Other Bolivians, though a majority of the population, are only slightly affected by international trade or even by the money economy of their own country. Bolivia's principal problem is to incorporate these people into the national community to increase national production at the same time that their standards of living, health, and education are raised. Until this is done, there can be no sound economy nor any possibility of modern and democratic development.

The large mineral production was possible because no major labor disputes or work stoppages have developed in the mines since the end of 1947, although unrest and politically inspired agitation have been practically continual. Miners received a 25 percent wage increase while their living costs were maintained fairly constant by the companies' commissary and housing arrangements. The government also courted the miners' favor by enacting a very generous retirement law.

Agricultural workers, though they outnumber the miners 20 to 1, have received very different treatment. Bolivian officials realize, somewhat vaguely, that the only hedge against complete dependence on mining is the development of intensive, commercial agriculture. This problem,

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2 X1
Weekly Contributions,
(CIA Working Paper)
Situation Memorandum 19-49

5 April 1949

they know, is also related to the basic one of educating and developing the Indian population of the rural areas which now forms a second, ignored and silent nation which exists within the national boundaries, but which is only a detriment politically and economically. Some few agricultural projects have been of moderate success, but significant development depends on larger funds for transportation and irrigation. In view of an expected dislocation in metal markets, Bolivia is in a race against time to develop a greater measure of agricultural self-sufficiency before metal prices break. In effect, an extension of time has been provided by the fact that Far Eastern conditions are such that normal tin production may not be reestablished for some years.

Government finances depend primarily on export taxes on metals, so that recent higher prices have resulted in an increase of foreign exchange holdings and the placing of exchange controls on a sound basis. Despite this favorable situation, the Bolivian Government has refused to make arrangements for service on its 134 million dollar debt to the US, as US observers feel it could. Bolivian Government intervention in the mining industry and its solicitous care for the mine workers have combined to make management reluctant to reinvest in mine facilities. Thus, long-term production must trend downward regardless of tin prices until adequate renewal of facilities is provided.

The US is concerned by both the current and the long-term tin production in Bolivia. Bolivia supplies more than a quarter of present US requirements and the US needs to maintain Bolivian production as a Western Hemisphere stand-by for emergencies. Bolivia's basic economy — whether supported by continued tin production or by diversification of mining and agriculture — is also of interest to the US since Bolivia is a Western Hemisphere nation and a partner in inter-American alliances and enterprises which depend on the economic and political health of each member.

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